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# **Value Added Customer Service Products**

F-1VA  
1985  
C.1

**INPUT®**



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## VALUE ADDED CUSTOMER SERVICE PRODUCTS

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## VALUE ADDED CUSTOMER SERVICE PRODUCTS

### ABSTRACT

Customer service is an extremely important generator of revenue and profit for companies; however, it is becoming increasingly harder to maintain revenues from the major contributor in service which is hardware maintenance.

The study examines ways in which service organisations can protect their revenues and the new/enhanced services which can be marketed to the customers.

The organisational impact of new services is examined.

This report contains 42 pages, including 12 exhibits.

# VALUE ADDED CUSTOMER SERVICE PRODUCTS

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## I INTRODUCTION

- Service is an extremely important corporate revenue generator, typically accounting for between 20-30% of corporate data processing revenue.
- Many companies are becoming increasingly concerned about their ability to maintain the level of service revenue in the future.
- This study briefly examines the ways in which service organisations can protect their traditional service revenues and methods of increasing those revenues with enhanced/new services.
- The content of the report is based on interviews with a number of key vendors, as shown in Exhibit I-1.

EXHIBIT I-1

SERVICE VENDORS INTERVIEWED

Burroughs	IBM
Computer Field Maintenance	NCR
Data General	Nixdorf
DDT Maintenance	Olivetti
Digital Equipment Corporation	Sperry
Eastman Kodak	Xerox Learning Systems
Hewlett-Packard	

## II EXECUTIVE SUMMARY

### A. PROJECTED EROSION OF TRADITIONAL REVENUES

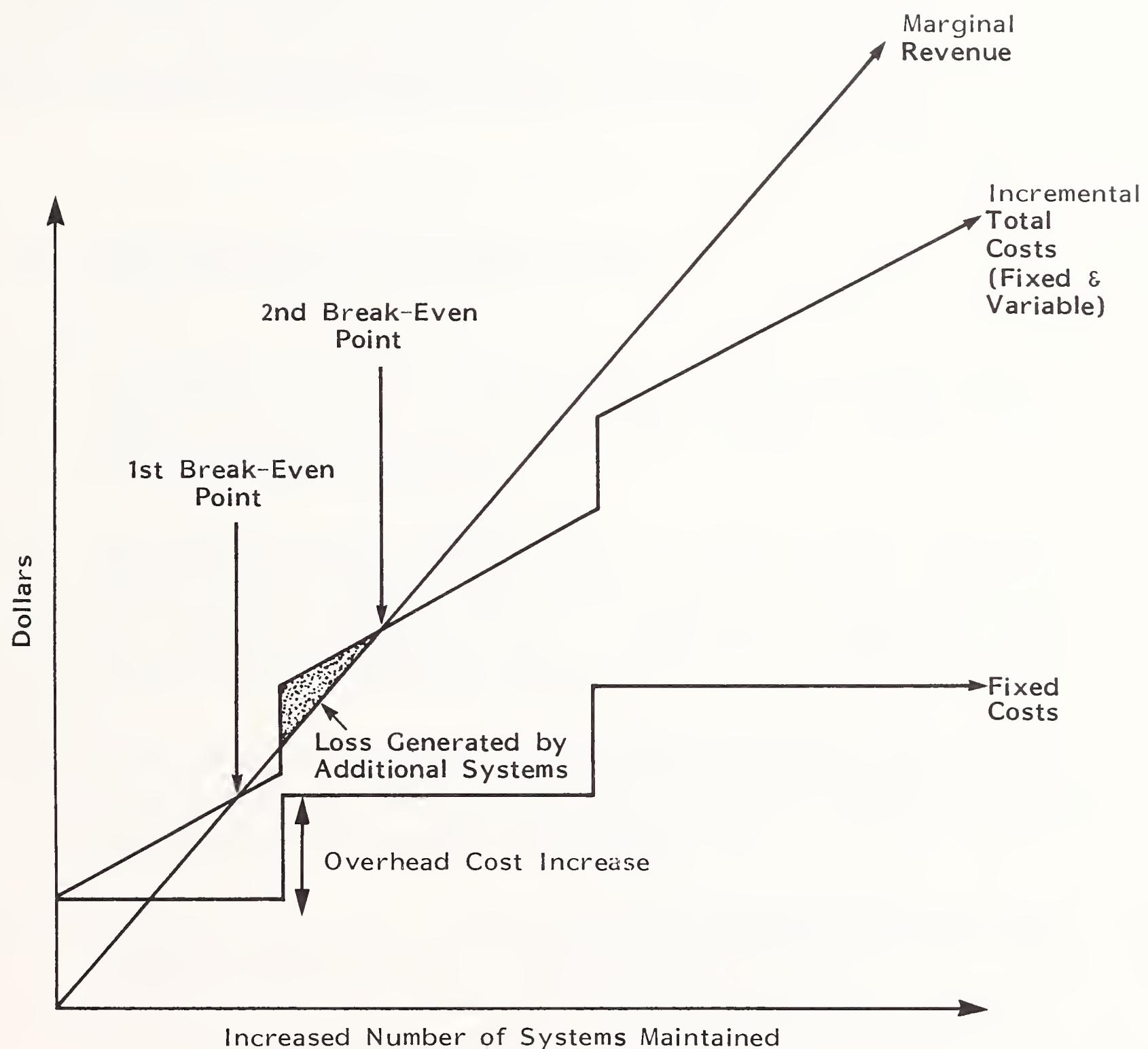
- Although the major revenue generator within customer service (CS) continues to be field service maintenance, the rate of growth for this particular service is stabilising.
- This phenomenon is due to the convergence of a number of factors:
  - Hardware prices are decreasing.
  - Technological advances have led to increased hardware reliability and hence fewer repair calls, but there is scope for planned maintenance calls.
  - Increased reliability may also stimulate a trend away from contract maintenance to on-call maintenance at the lower end of the market.
  - As a result, users believe that they should be paying less for their maintenance services.
  - The impact of third-party maintenance organisations (and other vendors servicing manufacturers' equipment) has been based primarily on a policy of lower prices.

## **B. PROFITABILITY VERSUS COST CONTAINMENT**

- These factors have meant that the profitability of customer service organisations risks being severely impacted and will, without remedial action, lead to a spiralling decline in revenue. The old installed base is gradually being replaced by newer, more reliable, and cheaper hardware.
- Although research findings suggest current healthy revenue growth for standard maintenance services, the widespread assumption that profitability can be assured through increased volume sales is erroneous and dangerous.
- Companies who make this assumption may not see the pitfalls of a potential profit trap. Pursuing a policy of increasing volume sales at decreasing unit sales prices leads to increased risk and exposure in actual delivery of maintenance, even taking into account the greater reliability of the equipment.
- Serving an expanded installed base for a CS organisation may mean substantial investment in both labour (engineers) and capital (parts inventory) and higher administrative and overhead costs. In fact, a marginal increase in revenue can lead to a greater increase in costs. In the worst case, incrementing by one additional system may involve hiring an additional engineer.
- Exhibit II-1 demonstrates the way in which the marginal cost increase can erode customer service profitability.
- In order to offset potential declining revenues, service organisations should be developing long-term strategic plans rather than adopting pragmatic policies which in the long term could have catastrophic results.
- This may encompass evaluating current services and products; targetting market strategies, pricing, and packaging (delivery methods); and changing organisational structure and corporate resources.

EXHIBIT II-1

THE IMPACT OF VOLUME REVENUE GROWTH



- It is now opportune for CS managers to assess the viability of marketing new or enhanced products to generate additional revenue/profits without engendering profit decline. Some vendors are still confusing revenue with profitability without understanding the implications of such a policy. It is therefore necessary to understand how service organisations perceive their role within the company.

### III THE ROLE OF CUSTOMER SERVICE

#### A. THE PERCEPTION OF CUSTOMER SERVICE

- The question 'what do you perceive to be the function of customer service' elicited a varied response from customer service managers. Examples of their replies are shown as Exhibit III-1.
- Some perceive customer service as being the provision of basic maintenance services, the key elements being hardware repair, preventive maintenance, and systems and technical support. In these cases, respondents regard customer service as a post-sales activity.
- At the other end of the spectrum, vendors distinctly perceive the CS function as the provision of a total service solution with the CS division involved in both pre-sales support and post-sales activities.
- As can be seen, some CS managers are still allocating most of their time covering the traditional aspects of customer service:
  - Improving system availability.
  - Improving overall system/service quality.

## EXHIBIT III-I

### PERCEPTIONS OF CUSTOMER SERVICE

- 'To retain customer satisfaction by providing acceptable response time and system availability'. (A post-sales activity.)
- 'A sales support function with the aim, however, of operating at a conveniently profitable level whilst retaining client loyalty'. (Reduce costs and increase profitability.)
- 'Provide end user with systems/business solution'. (Pre-/post-sales.)
- 'Traditional response - to maintain equipment - reduce downtime - a marketing support function. However, we do operate to make a profit'. (Essentially a post-sales activity.)
- 'To retain customer satisfaction by providing more system availability to users during prime shift'.
- 'Active in both pre- and post-sales activities. Operate as a profit centre'.
- 'We are in the service business; there is now a widening channel between service and maintenance. User dependency on equipment for business efficiency opens up a whole new area of opportunities which we are beginning to exploit. We are developing an integrated approach for a total service solution'.
- 'CS is that activity which analyses all areas sandwiched between MTBF and MTBI'.
- 'CS - an all embracing team'.
- 'A sales support function/a post-sales function - maintain user equipment'. (Separate profit centre.)
- 'Everything after the sale'.

- More forward-looking companies are giving attention to the revenue generating capabilities of basic maintenance-related ancillary services, aiming to achieve a better adaption of service offerings to user needs. In these instances, service means not only improving system availability, but an improved utilisation of corporate resources.

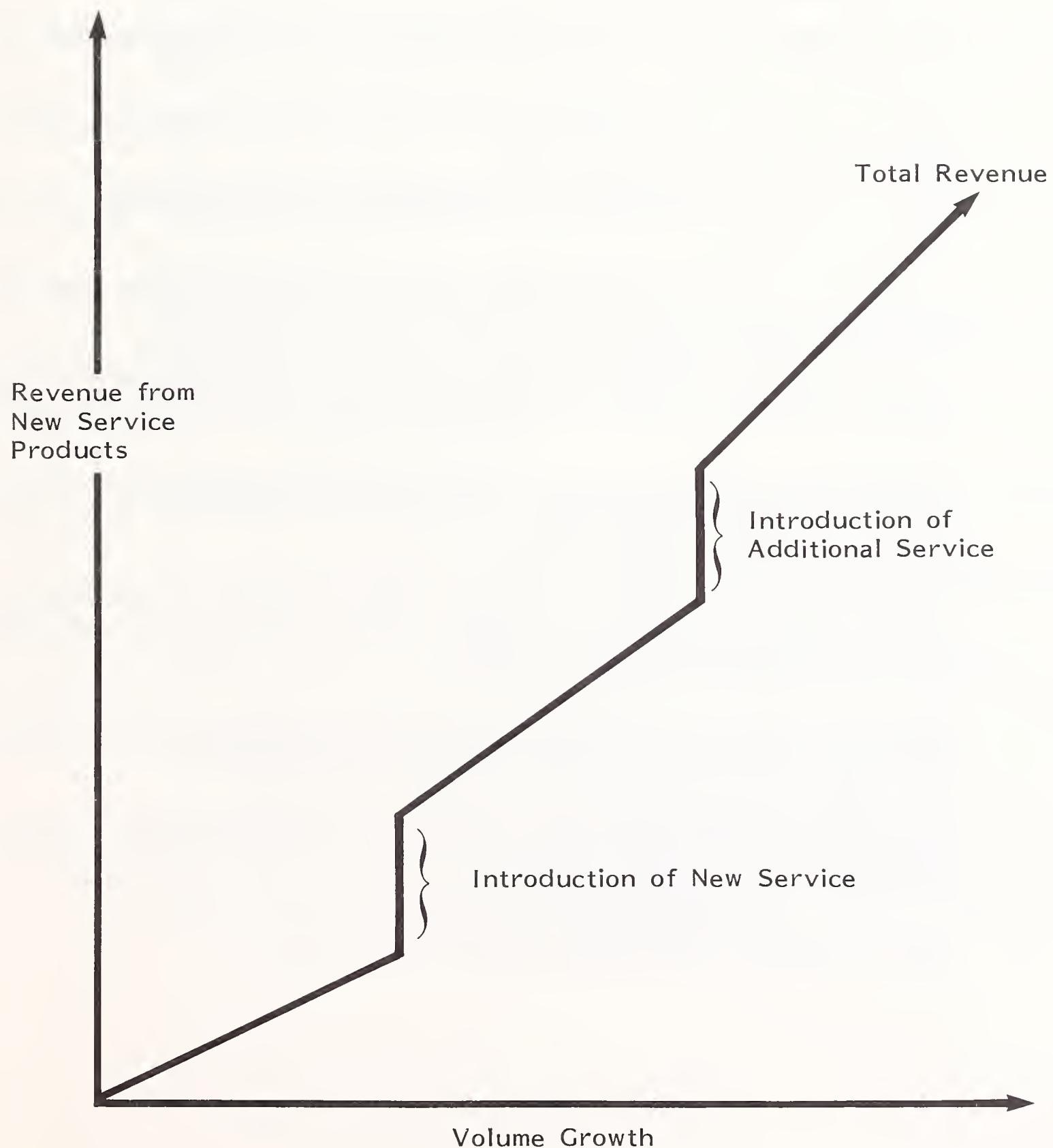
## B. GOALS/OBJECTIVES OF CS MANAGEMENT

- As traditional maintenance revenues risk erosion, vendors are confronted with the problem of how to reconcile two conflicting objectives--those of cost containment and revenue/profitability improvement.
- As previously mentioned, an expansion of basic maintenance services can lead to an erosion of profit margins. Similarly, cost-cutting measures equally carry risk. Within service, the scope for cost cutting is somewhat limited--the only variables being parts or labour.
- With respect to engineering resources, some vendors have already undertaken some rationalisation, reducing the number of active personnel through early retirement schemes and reducing the number of regional service centres.
- Other vendors report that the current number of engineers will be maintained at stable levels within the short time, but have not yet resolved how to optimally utilise the resource; i.e. retraining for new products and technology, cross-training on software maintenance, etc.
- Given that one of the constraints to third-party maintenance growth is the lack of available human resources, making engineers redundant will only fuel increasing competition. It is therefore advisable to:

- Develop new products to increase revenue or profitability (according to company goals) via new delivery methods. Exhibits III-2 and III-3 show how vendors are currently seeking to increase and protect revenues.
  - Investigate customer needs in more detail and develop marketing strategies to satisfy the customer.
  - Adopt pricing policies commensurate with what the market can bear for products with a competitive differential advantage.
  - Exploit technological developments which enable cost cutting, such as remote diagnostics, but with benefits which can be communicated and sold to the user at a premium.
- Measures currently under review include new methods of delivery; e.g., use of courier transport in lieu of engineer call, modular exchange, product design to incorporate remote diagnostics. These measures all contribute to a reduced service provision in the traditional sense, but imply major changes in the role of the service engineer.
- Another innovative cost-cutting measure undertaken by a large TPM company is the provision of improved documentation for specific microcomputer applications. By being able to highlight errors as being an operator fault due to insufficient training rather than a machine fault, this vendor was able to reduce the costs of engineer calls quite substantially. However, engineers are spending less time on-site undertaking repairs overall.
- Exhibit III-4 quotes a number of management views about the goals and objectives of the customer service organisation.

EXHIBIT III-2

IMPACT OF NEW SERVICE PRODUCTS



### EXHIBIT III-3

#### STEPS TO PROTECT REVENUE

- 'The sale of supplies (and peripherals), previously a sales division activity, will be merged into the CS division'.
- 'More flexible suite of contracts - hardware and software bundled or unbundled'.
- 'Bundle or unbundle according to client levels at commercial rates, within given market industry; e.g., financial'.
- 'Offer contracts with differing levels of service; e.g., different response rates, guaranteed uptime'.
- 'Revenue generation provided by field maintenance ancillary service - that of hardware upgrade programs which are chargeable to the end user'.
- 'FE selling products such as low-end equipment such as electronic typewriters currently under investigation. Also selling of add-on type peripherals; e.g., printers'.
- 'Provision of more flexible hardware contracts which respond better to users' needs, especially additional hours cover/out of hours cover in specific industry - banking/retail/distribution'.
- 'A distinct move away from the standard maintenance contract to a tiering system, offering multiplicity of choice'. (Basic ad hoc repair enhanced contract with guaranteed response time.)
- 'The FE now carries a catalogue covering supplies, durables, and consumables, enabling him to provide more than a basic technical repair with the possibility of providing additional services and resolving a user problem'.
- 'Increasing our market share on own equipment by capturing our non-contract customers via marketing methods such as telemarketing, increased visibility via promotional activities'.
- 'Sales of spare parts and supplies, equipment, and upgrades'.

## EXHIBIT III-4

### CUSTOMER SERVICE GOALS AND OBJECTIVES

- 'Improve market share on own equipment via promotional and advertising channels; develop telemarketing for non-contract companies'.
- 'Keep costs down by product innovation and improvements, upgrading engineers on new products, and finding new delivery methods for service'.
- 'Reduce costs and improve profitability'.
- 'With company expansion, via investment and acquisition of expertise, we hope to offer a fullblown customer service package'.
- 'Increase revenue through expanded dealer scheme'.
- 'Cost effectiveness equates with price competitiveness. We aim to be a low-cost producer of service and hence squeeze out the competition. This will be achieved by introducing new delivery methods'.
- 'Become a single-source supplier'.
- 'No major innovations - increase our major activity of first line maintenance; increase sales of contracts to counter decrease in profit margins'.
- 'In the next two years, in order to maintain current revenue levels, we will need to double volumes of sales'.
- 'Provide solutions to user and improve system availability in the process'.
- 'We will look for ancillary activities that will enable us to combat potential revenue decay'.
- 'Adopt long-term planning for growth to ensure employment opportunities for our engineers'.
- 'Offset decline in maintenance revenue growth by offering new services where we can optimise our resources on a nationwide level'.

### C. MANAGEMENT AWARENESS OF NEED FOR NEW REVENUE SOURCES

- Customer service managers are being forced to devise new services to protect revenue/profit whilst trying to resolve the problem of resource utilisation.
- In the past, customer service functions were often managed as cost centres in which the primary goal was to achieve defined objectives within a given budget. It is apparent that the customer service function is increasingly planned to be managed as a profit centre, but so far there has been little indication of how this is to be implemented. The essential question of reconciliation of commitment of resource with cost effectiveness still has to be resolved.
- The capability to commit resources to market new products will lead to increasing importance being attached to the service function, its increasing involvement in overall business planning, and the need for stricter definition of the relationship between different departments (sales, marketing, service, etc.).
- One major area which needs analysis is that of pricing of services both to the end user (bundled or unbundled) and interdepartmental within the company (cross-charging for services at commercial rates). Currently the pricing usually applied on an internal basis is that of fully burdened cost, but this is still not the most prevalent. Some companies are still giving away services 'free' to get the business and often are working in a loss situation (so far as customer service is concerned).

## IV NEW APPROACHES TO SERVICE PRODUCT MARKETING

### A. SERVICE OFFERINGS

- Vendors are already planning to undertake measures to protect their revenue. In the traditional field service areas these include:
  - Provision of more flexible service contracts (different levels of service, guaranteed response time, out of hours cover).
  - There is a recognition of the opportunity for out of hours cover to specific market niches; e.g., banking, retail, financial, petroleum, critical applications, etc.
  - Users show a willingness to pay premiums for specific requirements; e.g., out of hours cover. Vendors should exploit these opportunities, especially since in general customers are displaying increasing service price sensitivity.
  - Assessing commercial viability of bundling/unbundling services.
- Some companies are actively trying to improve company image and promote service through:
  - Improved market advertising and publicity.

- Direct response marketing.
- Telemarketing.
- In the field of new service, investigation is being made of:
  - Field service engineers selling contracts.
  - Field service engineers selling low-end equipment; e.g., electronic typewriters.
  - Field service engineers selling the concept of service.
- Many manufacturers are actively examining the prospect of undertaking third-party maintenance. Whilst this may be an attractive option in the short term, there are dangers involved.
  - These dangers have been discussed in INPUT's report Hardware Vendors' Response to Independent Maintenance.
- There are additional services which can be considered to fall within the expanded definition of customer service.
  - Microcomputer maintenance.
  - Software brokerage.
  - Environmental planning services.
  - Turnkey systems provision.

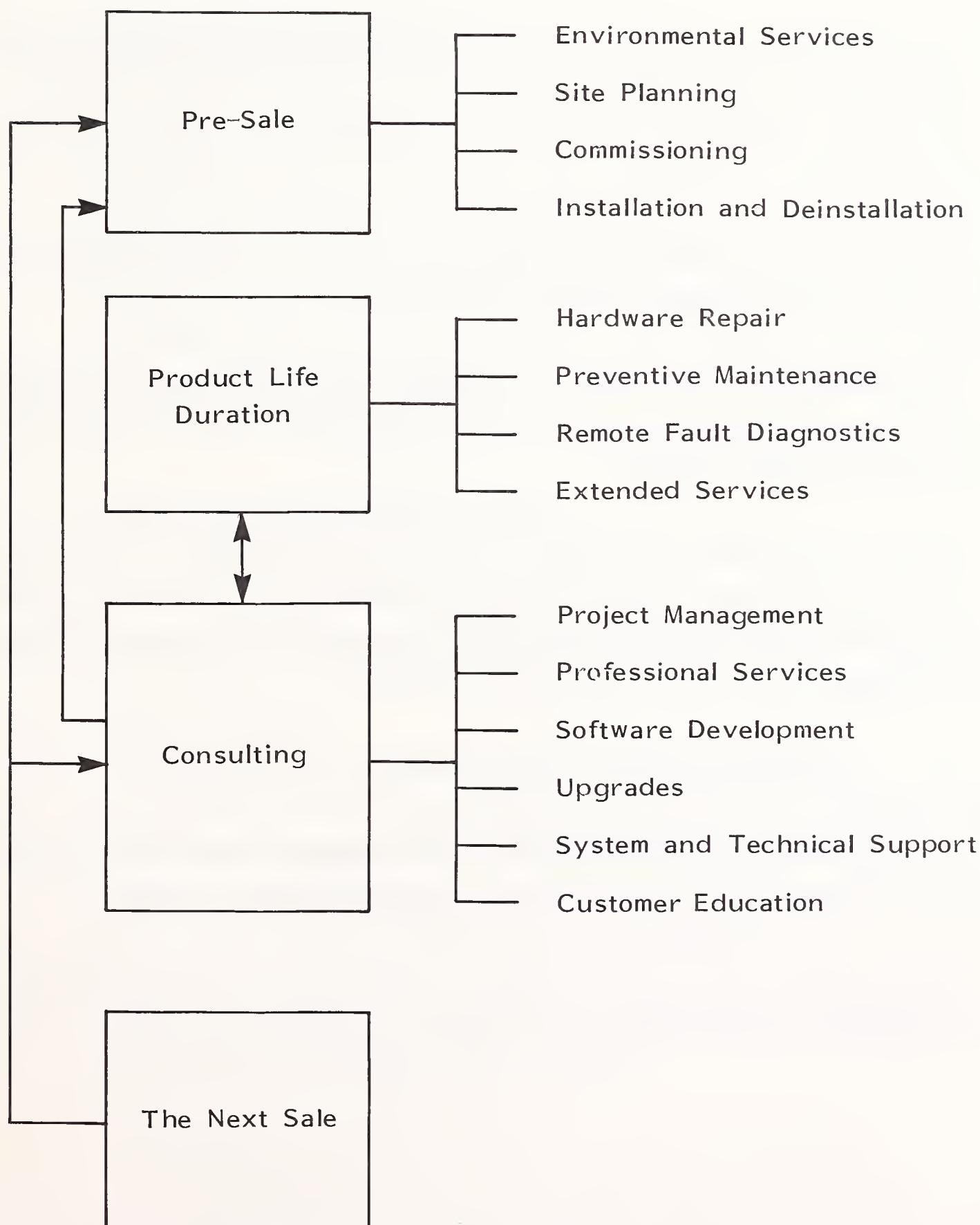
- Other methods include the allowance of discounts to end users for installation of equipment during periods of troughs in their business activity which can allow vendors to plan their business more effectively. The corollary to this is the premium supplementary payment for installation during users' peak period activity. As a result of studying target market requirements, vendors can price products more effectively.

## **B. COMPONENTS OF CUSTOMER SERVICE**

- CS vendor organisations are generally structured along similar lines, providing some or all of the following services:
  - Pre-sales activity.
    - Environmental design.
    - Site planning.
    - Commissioning.
    - Installation (deinstallation).
  - Basic field maintenance.
    - Hardware repair.
    - Preventive and remedial maintenance.
    - Remote diagnostics (where applicable).
    - Extended services on basic cover.

- Consultancy.
  - Pre-sales--environmental planning.
  - Total project management (vendor as prime contractor).
  - Professional services.
  - Software development.
  - Upgrades.
  - Spare parts.
  - Technical support.
  - Software support.
  - Customer education (training, documentation).
- The relationship between these various activities on illustrated as Exhibit IV-1.
- At present, the basic maintenance contract covers basic repair, preventive maintenance, technical support, and in some instances software support. Pre-sales activities may or may not be chargeable to the user. Most of the other activities listed above are sold as separate services.

## COMPONENTS OF CUSTOMER SERVICE



### C. PRE-SALES ACTIVITY

- Normally, nominal site consultancy on the user site is bundled into the selling price of the product and charged back to the sales division. Installation may or may not be bundled into the user price, the policy usually being dictated by the level of equipment.
- It is becoming increasingly common for preventive maintenance to be integrated into normal repair procedures due to the increasing reliability of equipment. However, it still forms an integral part of the basic maintenance contract.
- Vendors should target those markets which require the above services and clients who are willing to pay a premium for this.
- Software support is the object of a separate maintenance agreement, supplied either by the software or systems division which may or may not report to the customer service division.
- There is awareness of the need to supply improved software support to the end-user community. This will result in a convergence of activities in those operations where these services are commercialised as separate entities, implying:
  - Organisation restructuring and retraining where applicable.
  - Orientation toward a total package solution in which vendors aim for status as single-source supplier, thus locking in the customer.
- Some vendors are actively considering collaboration with software houses to supply the user base with software which they can then maintain.

#### D. REMOTE DIAGNOSTICS

- Being product dependent, this may or may not be included in the basic maintenance contract, but will become increasingly important for medium and large systems, enabling vendors to decrease overhead engineering costs.

#### E. INSTALLATION PLANNING

- All vendors offer these services on a chargeable basis to the end user. Vendors are becoming increasingly aware of the revenue potential of offering total systems management packages, environmental design facilities, and turnkey systems as separate services. Previously, nominal environmental planning would have been included in the purchase price of equipment, nonchargeable to the user but cross-charged to the sales department.

#### F. TRAINING AND DOCUMENTATION

- The training function may fall within the jurisdiction of the CS department, but in most cases is handled by the systems support division or as an offshoot of the sales division.
- The traditional policy of vendor companies has been that training is a separate unbundled supplemental service to be purchased at the discretion of the user. Nominal basic documentation and training on equipment is included in the initial price, but user training on application packages is not.
- Application packages purchased as an integral part of equipment sale are supported by the company's systems division.

- Interesting developments, however, are becoming apparent:
  - TPM companies are capitalising on the recurrent inability of equipment suppliers to produce adequate training and sufficient documentation. One TPM company is actively promoting the sale of in-house-developed documentation for micro-based applications software, which has resulted in the decrease of frequency of engineer calls. Breakdown is often erroneously attributed to machine fault when in reality it is a result of user error.
  - Another TPM company belonging to a consortium called Euroservice is actively developing the sales of technical training courses to engineers of other affiliated European companies.
- A second interesting development has been the provision of training by certain vendors to dealers and distributors of business micros and minis in order to support users' equipment as the trend toward indirect sales increases, which in the long term will provide both increasing revenues and decreasing costs.
- Other companies are assessing the feasibility of providing training on other vendors' software and packages and investigating the possibility of developing training on in-house-developed software; e.g., data bases. Where appropriate, acquisitions will be made to provide for this facility.
- Opportunities do exist for companies to provide:
  - Training at customer sites for own or independently acquired software.
  - Training to value added resellers of their equipment.
  - Generic computer products training--languages, communications, data bases.

- The trend is away from training on traditional base products towards specific application areas such as financial packages, data bases, or vertical market applications where vendors already have expertise in given markets. As a result, some companies anticipate the eventual integration of training and documentation services within customer service.
- In order to maintain client satisfaction, a degree of flexibility is being shown by certain vendors relating to client training needs.

#### G. CONSULTANCY/PLANNING

- At present, consultancy is offered to the marketplace at commercial rates or on a fixed-fee basis. These services comprise:
  - Performance consulting.
  - Systems packages consulting.
  - Facilities planning.
- An exception to this is the area of pre-sale installation site planning.
- There is evidence to show that the demand for consulting services is growing, and CS organisations are analysing the benefits of marketing this service not only to their current customer base but also on the open market. One company is actively promoting environmental design services to specific market segments, and if successful will broaden this activity to other vertical markets.

- Another trend is toward the provision of total project management facilities to end users with the supplier company acting as prime contractor, taking full responsibility for communications, cabling, electrical wiring, hardware, software choice, installation, etc. TPMs are also addressing this issue by providing consultancy services both on hardware (upgrades, equipment changes) and software (applications).
- As direct selling channels are increasingly being used, certain vendors are providing management consultancy services to distributors who wish to establish sales and maintenance facilities.

## V FUTURE POLICY TO ENHANCE REVENUE

### A. EXPANSION OF TRADITIONAL SERVICES

- With respect to traditional maintenance service offerings, suppliers anticipate increased revenue through the following measures:
  - Adoption of different terms of cover.
  - Additional out-of-hours service.
  - Flexibility of contracts.
  - Extended cover.
  - Preventive maintenance.
  - 'Tiered' contracts.
  - Discounts.
  - Ad hoc additional cover and reversion to normal contract.
  - Promotion of remote diagnostics.

## B. DIFFERENT DELIVERY METHODS

- Different delivery methods include:
  - Courier services to transport faulty components.
  - Modular exchange.
  - Phone-in support services.
  - Remote diagnostics.
  - Product design to incorporate redundancy.

## C. PRICING STRATEGY

- With the decline in the basic selling price, the trend is now reverting to bundling of services in maintenance, thus evening out discrepancies between profitable and unprofitable components; e.g., provision of extended warranty. The advantages of such a policy are:
  - To protect revenues.
  - Maintain client base and lock out TPM companies.
- In the instances where the value added service has a competitive advantage, however, the service should remain unbundled.

## D. ADDITIONAL SERVICES

- Additional services include:
  - Selling products.
  - Selling media and supplies.
  - Selling contracts.
  - Hardware upgrades.
- In order to relieve the cost and personnel pressures on the traditional maintenance business, new and expanded services are emerging.
- In the case of using engineers in a sales role, care should be exercised, as previous INPUT studies have shown that users have different reactions to this approach.
  - Whilst some users appreciate the convenience and the reasoned judgement of the engineer and regard this as a helpful activity, others fear that the engineer's impartiality may be compromised.
  - Users are also concerned about the impact on response time if engineers are spending time selling. That problem is compounded if there is a financial incentive for the engineer to sell, in which case a conflict of interest may arise.

## E. THIRD-PARTY MAINTENANCE

- This opportunity arises from the trend toward multi-vendor sites.
- Objectives of pursuing third-party maintenance offerings are twofold:
  - Defensive (to maintain client base).
  - Aggressive (to increase market share).
- The main benefits of a policy are to:
  - Lock out TPM companies.
  - Retain revenues.
  - Maintain customer loyalty.
- The disadvantages are:
  - If the company does not have the spare resource capacity, pursuing this policy can lead to serious revenue erosion and decline in profitability.
  - Investment necessitated may not produce minimal marginal returns.
- In the case of pursuing an aggressive policy, the advantages are the capability of 'piggyback' sales of equipment onto TPM agreements and the optimisation of labour resources and reduction of overhead costs.
- A key disadvantage of such a policy is that the high level of risk investment may not provide a sufficient rate of return.
- Vendors' views about TPM activity are quoted in Exhibit V-1.

## EXHIBIT V-1

### TPM ACTIVITY

- 'We have been able to pick up a lot of this activity without really trying. As we 'badge' engineer contact components we find that the demand has come from our users'.
- 'We TPM on similar equipment to our own:
  - With OEM vendor/distributors who do not have their own service capability.
  - Are actively enticing large contracts with users who have large numbers of similar pieces of equipment; e.g., EPS terminals, PCs, office automation products'.
- 'We see ourselves as a single source for maintenance and regard this as a unique selling point'.
- 'We see TPM as a defensive strategy to maintain client base, lock out independent maintainers, and lock in OEMs'.
- 'If necessary we will subcontract TPM activity to maintain clients' loyalty'.
- 'We do not perceive TPM to be a market opportunity in its own right. It is undertaken not to increase revenue but retain installed base'.
- 'We see TPM as a marked opportunity, but the sole obstacle so far has been lack of spare capacity'.
- 'Currently 10% of our CS revenue comes from TPM (badge-engineered or integrated). Our policy is to attain 10% of the total TPM market by 1988. We aggressively market full-blown activities since it carries the advantage of being able to piggyback sales onto customer service. One TPM contract resulted in the sale of 300 micros'.
- 'We will sell TPM via dealers or direct. It is easier for vendors to block TPM on mainframes'.
- 'We will be able to offer TPM as an official service to the open market from January 1985 (mainly for minis/mainframes). We are able to offer this service as we will have a direct sales force operational from 1st April. The aim is to optimise our labour/engineering resource on a nationwide basis and reduce costs'.

## F. ENVIRONMENTAL SITE PLANNING CONSULTANCY

- Originally a component of the initial purchase package, environmental and site planning services are now the objects of scrutiny with a view to increasing revenues.
- Whereas revenue in customer service is being maintained, the structure of the contributory components of this revenue is changing. Vendors comment on the potential beginnings of the decline of traditional revenues being offset by the use of new services. One company quoted an annual growth rate of 30-40% for facilities planning services.
- Similarly, another area under consideration is that of network design consultancy. The development of networking/distributed processing and on-line, real time applications has fuelled the demand for these services.
- It remains to be seen whether manufacturers of computer equipment can be perceived by the user community as independent suppliers of consultancy services. Some vendors have already commented on considerable success in offering environmental services to particular market niches by acting as prime contractors for total turnkey solutions to the user. The trend is towards attempting to be the provider of a total service solution within the company.

## G. SALES OF MAINTENANCE CONTRACTS VIA DEALERS/DISTRIBUTORS AND VARs

- The structure of the marketplace is changing. The high volume growth in business micros and minicomputers has led to the parallel growth of alternative distribution channels. It makes economic sense to allow third-party

resellers to market low-value/high-volume equipment while expensive resources are utilised elsewhere more profitably.

- Dealers and distributors are now being provided with considerable financial incentives to sell equipment suppliers' maintenance contracts.
- Considerable time, effort, and resources will have to be allocated to the management of these channels in order to maintain client satisfaction and company reputation. Some companies anticipate promoting various levels of support to distributors (maintenance, consultancy, and training).
- Exhibit V-2 shows vendors' quotes about relationships with VARs, dealers, and distributors.

#### H. SOFTWARE BROKERAGE

- A further opportunity is that offered by software brokerage; i.e., the commercialisation of third-party software packages with or without training, and the possibility of the eventual supply of documentation and maintenance. Support of other vendors' software is also under review.

#### I. OTHER SERVICES

- Other services under review include:
  - Network design services.
  - Application design--customer specific.

## EXHIBIT V-2

### VARs, DEALERS, AND DISTRIBUTORS

- 'We sell all PCs through dealers. We offer considerable financial incentives to dealers for initial maintenance contracts. We can provide various formulae—'on-site', 'off-site', 'return for repair' —the object being better utilisation of our selling/marketing structure'.
- 'Our policy of providing 20% discounts to dealers for the sale of maintenance has not yet proven to be adequately successful'.
- 'We introduced an incentive scheme for OEMs to sell our equipment on a commission basis one year ago. It enables us to deploy our resources more effectively elsewhere'.
- 'We may consider working with dealers/OEMs but have given it little consideration so far'.
- 'In 1982 indirect channels accounted for 30% of our sales; in 1986 we see this growing to 75%. As a result, we are investing quite considerably in this area and supplying a total service package to these suppliers. (First level maintenance service, repair modules; in-house facility level 2; consultancy and training level 3; etc. is a positive new strategy.)'
- 'We aim to expand our dealer scheme (commission basis)'.
- 'We perceive growth in alternative channels of marketing and support the products which use OEM'.

- Communications consultancy.
- Management services.
- Customer education.
- Software support.
- Project management turnkey systems.
- Single-source solution provider.
- Sale of cabling.
- Disaster recovery.
- Diversification into manufacturing; e.g., cassette copying devices.

- Exhibit V-3 summarises respondents' quotes about new services they envision providing. The reasons for the development of these services are shown in Exhibit V-4.

## EXHIBIT V-3

### NEW SERVICES ENVISAGED

- Chargeable Hardware Upgrades
- Site Planning Consultancy
- New Delivery Modes of Service
- Software Support
- Facilities Management/Provision of Turnkey Systems
- Environmental Planning Services
- Catalogue of Supplies
- Application Design
- Software Brokerage
- TPM - Installed Base (Various Strategies) - Open Market
- New Remote Services
- Extended Services - Target Market Specific
- Cabling Services
- Disaster Recovery
- New Delivery Modes (Telemarketing, Telephone Support Centres, Telesales Support to FE, High Growth Forecast for Dealer/Distributor Agreements to Sell Maintenance Contracts)
- Agreements with Software Houses to Develop Specific Application Packages

## EXHIBIT V-4

### REASONS FOR DEVELOPMENT OF NEW SERVICES

- Reduce cost pressure and charge premium prices.
- Increased pressure on maintenance side of the business.
- Escalation of engineering costs to cover wider installed base at lower service prices.
- Decreasing the period of time spent at user site carrying out repair means that new functions/engineering activities must be found.
- Optimise utilisation of corporate resources.
- Changing nature of the marketplace. User dependency on equipment provides opportunities for new services, whereas originally attention was focused upon increased system availability which is now being achieved. Attention now needs to be focused on other factors; e.g., environmental, network, operator, which can provoke error/system downtime.
- Needs of the marketplace for education/training, overall systems management, and facilities planning.
- Capitalise on new areas. Growth on distributed processing and networked systems (financial/on-line systems) provides new opportunities for CS revenues.
- Pressure on maintenance revenues means that attention needs to be placed on making activities less labour intensive.
- Capitalise on growth in facilities management activity which is currently growing at 30-35% annually.



## VI ORGANISATIONAL IMPACT OF NEW SERVICES

### A. THE CHANGING PROFILE OF THE CS ENGINEER

- More reliable equipment requires less engineer time. Although this may be potentially offset by increased volume sales, this will not continue unabated. If a company is to succeed, it needs to maintain good calibre staff and provide substantial career progression. As costs of FE support are not decreasing, measures need to be found to justify employing engineers as a productive resource in the company. Some companies have already voiced concern over the possibility of redundancy unless other profitable activities can be found.
- The profile of the field engineer is beginning to change. He is already undertaking ancillary activities such as selling supplies, upgrades, media, peripherals, etc., but in the future the role of the field engineer will be increasingly that of an ambassador/consultant/troubleshooter for the company.
- This means that in addition to technical expertise, the field engineer will need to master interpersonal skills and an understanding of both client needs and his business. He will increasingly have to liaise with different divisions of the company; e.g., systems, sales, education, etc. The 'de-skilling' of the engineer may be offset to a degree by involvement with software maintenance, but this requires a different set of problem-solving skills. Engineers will also be called upon to learn techniques on new types of equipment; e.g., fault-tolerant systems.

- The field engineer will increasingly be regarded as the interface between the user and the company as supplier of solutions, with the benefits of improved consultancy to the user translating into increased revenues to the supplier. Since profit will only be engendered from customer satisfaction, the field engineer needs to provide not only technical but problem resolution, be it in the provision of supplies or channeling problems to the appropriate expertise.
- It is still not clear whether there will be adequate revenue generation in the marketplace for other activities to remain profitable and safeguard employment.
- As one TPM supplier states, 'If we remain solely in computing, we would be cutting staffing levels within two years'. However, with a view to supplying solutions rather than pure maintenance, more forward-looking companies are reviewing training needs of their field engineering staff; i.e., the development of problem-solving techniques.

## B. ORGANISATIONAL CHANGE

- As companies are obliged to move toward a total service solution, a more integrated, disciplined approach will need to be adopted by CS divisions.
- Increasing liaison will need to be made between systems, sales, educational, and software development services. One company already envisages incorporating in service all educational services previously undertaken by the sales divisions.
- The balance of power will also swing favourably towards the CS department from sales. A more equitable and realistic allocation of cost/profit needs to be made between the various divisons and true profitability of the product/service established. It is probable that in the future CS will not be identified solely with maintenance but will emerge with an enhanced image.

## VII CONCLUSIONS AND RECOMMENDATIONS

### A. CONCLUSIONS

- Many companies are still adopting a sales-oriented approach to customer service. This may generate sales in the short term, but it will become increasingly difficult to retain customer base without providing maximum customer satisfaction. Many companies say they operate as profit centres when in fact they do not have the wherewithall to do so.
- Companies are still remaining somewhat undecided as to which priorities to establish. They are attempting to reconcile conflicting objectives of cost containment and revenue generation. They also confuse revenue generation with profit generation. Long-term objectives have yet to be defined.
- In the future, vendors will have to adopt a new marketing approach:
  - Optimise all resources.
  - Assess performance levels.
  - Adopt structured business plans.
  - Retrain field service engineers where appropriate.

- There is still little evidence of forward planning by vendors since, to date, there has been little impact from TPM and revenues are still growing, albeit at a slower rate. Vendors are currently in a situation of false security. They assume that any potential decline in revenue will be offset by increasing volume of sales, but this engenders risks which have previously been analysed. Although increased sales will lead to revenue maintenance in the short term, the introduction and growth of fault-tolerant systems, increased system performance, and reliability will produce a negative impact on profitability within three-quarters of a year.
- Exhibit VII-1 illustrates how CS management themselves see their investment.

## **B. RECOMMENDATIONS**

- INPUT recommends service providers to:
  - Set priorities.
  - Undertake research in the marketplace to establish:
    - . Competitive pricing.
    - . Market targeting.
  - Promote CS not as maintenance but as a solution provider.
  - Set goals for CS within defined parameters.
  - Design and control adequate administrative systems geared to respond effectively to both customer and internal company needs.

## EXHIBIT VII-1

### WHERE ARE YOU INVESTING?

- Direct Response Marketing and Ancillary Services
- Telephone Support
- Consultancy Facilities Planning
- 150,000 Pounds to Train Engineers, Software Development Training Courses (Networking, Software), Improving TPM Image Within
- Providing New Vacancies on Sales/Marketing with CS
- Services to OEMs/Distributors
- Documentation and Training
- Training CS Engineers in Interpersonal and Problem Solving Skills
- Software Support
- Training on Fault-Tolerant Systems
- Media and Supplies Sales: Spare Parts, Sales, Repair Centre Activity
- Promotional Activities-CS
- Direct Sales Force for TPM
- Investing in Spares (Capital Investment) for TPM Activity
- Environmental Planning Service
- Applications Software and Network Design
- Improving Company Image

- Improve communications on all levels.
- Evaluate internal pricing policy for services provided by CS--operate as a commercial enterprise.
- Train engineers in interpersonal skills.





# About INPUT

INPUT provides planning information, analysis, and recommendations to managers and executives in the information processing industries. Through market research, technology forecasting, and competitive analysis, INPUT supports client management in making informed decisions. Continuing services are provided to users and vendors of computers, communications, and office products and services.

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## Offices

### NORTH AMERICA

**Headquarters**  
1943 Landings Drive  
Mountain View, CA 94043  
(415) 960-3990  
Telex 171407

**New York**  
Parsippany Place Corp. Center  
Suite 201  
959 Route 46 East  
Parsippany, NJ 07054  
(201) 299-6999  
Telex 134630

**Washington, D.C.**  
11820 Parklawn Drive  
Suite 201  
Rockville, MD 20852  
(301) 231-7350

### EUROPE

**United Kingdom**  
INPUT  
41 Dover Street  
London W1X 3RB  
England  
01-493-9335  
Telex 27113

**Italy**  
Nomos Sistema SRL  
20127 Milano  
Via Soperga 36  
Italy  
Milan 284-2850  
Telex 321137

**Sweden**  
Athena Konsult AB  
Box 22232  
S-104 22 Stockholm  
Sweden  
08-542025  
Telex 17041

### ASIA

**Japan**  
ODS Corporation  
Dai-ni Kuyo Bldg.  
5-10-2, Minami-Aoyama  
Minato-ku,  
Tokyo 107  
Japan  
(03) 400-7090  
Telex 26487

**INPUT®**  
Planning Services For Management

**INPUT®**

**Airwork House, 35 Piccadilly, London, W1V 9PB, England, 01-439-8985**